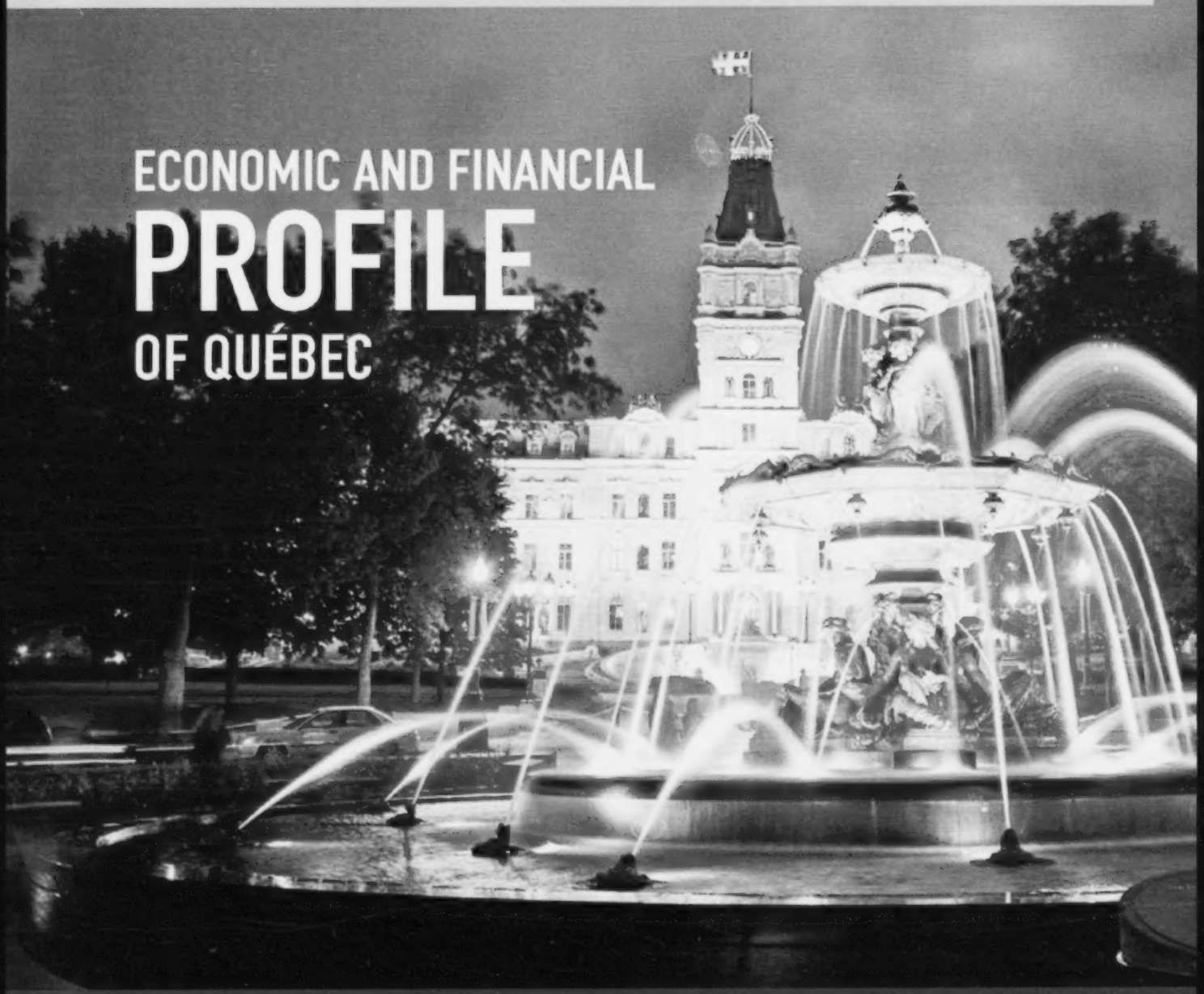
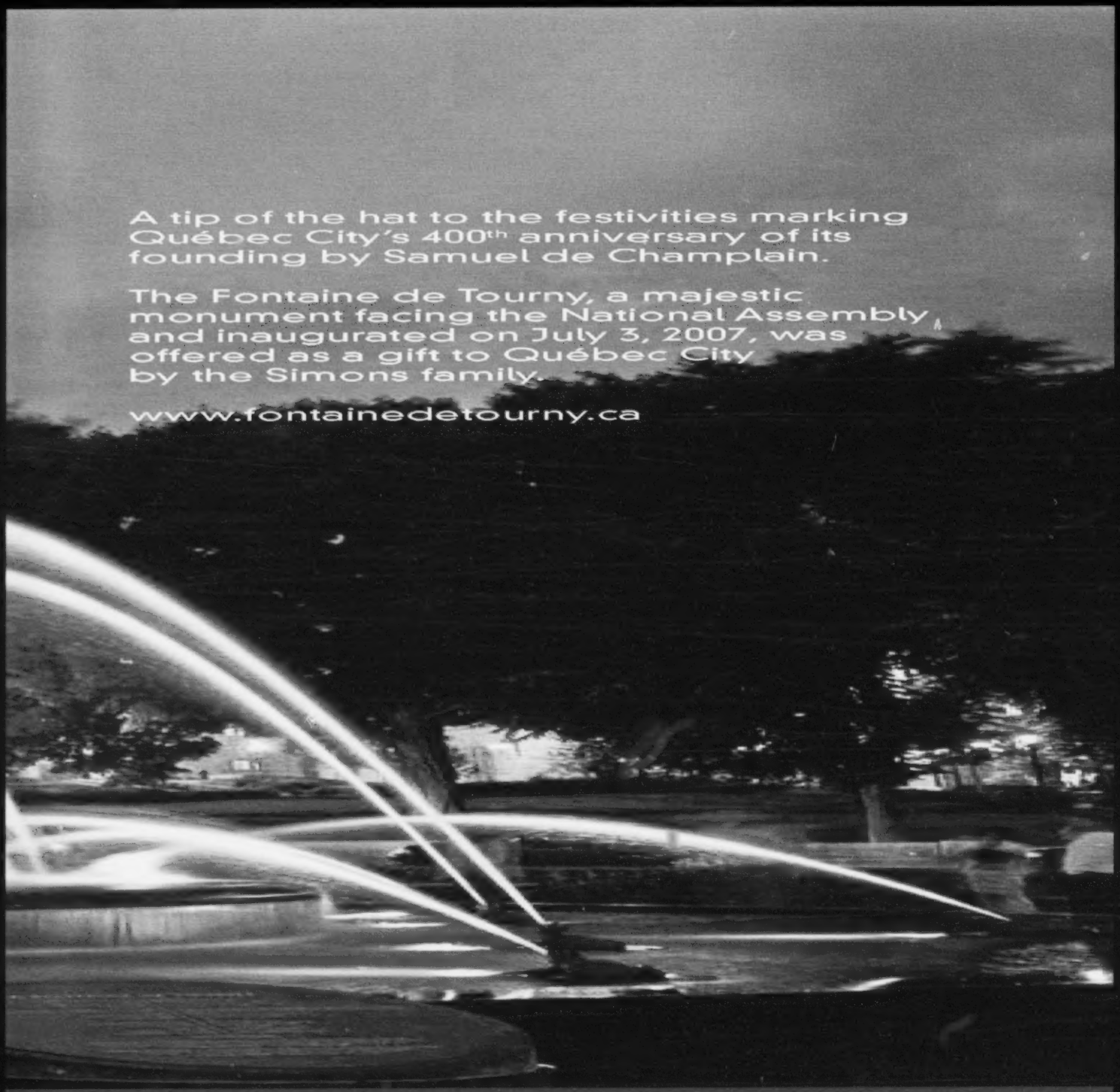
2008

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC



Québec

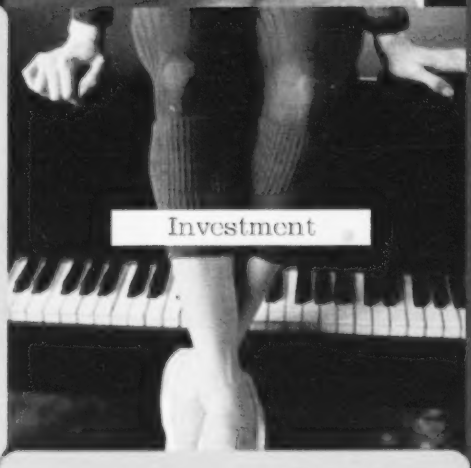

A tip of the hat to the festivities marking Québec City's 400th anniversary of its founding by Samuel de Champlain.
The Fontaine de Tourny, a majestic monument facing the National Assembly, and inaugurated on July 3, 2007, was offered as a gift to Québec City by the Simons family.
www.fontainedetourny.ca

Exports

Challenges

Prosperity

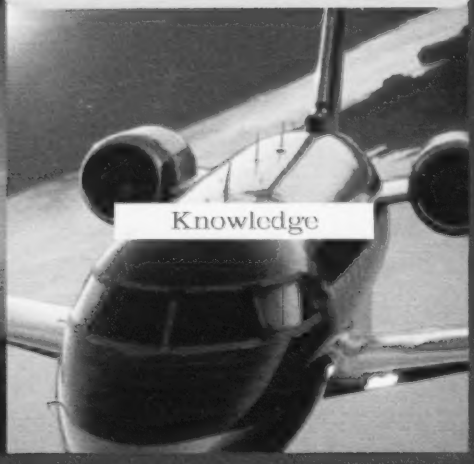
Ecoresponsability


Investment

Development

Productivity

Competitiveness


Knowledge

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QUÉBEC IN 2008

1. The largest province in Canada, Québec ranks second in terms of population with 7.7 million people.

2. As a natural gateway to the North American continent, Québec offers easy access to a market of more than 440 million consumers through its participation in the North American Free Trade Agreement (NAFTA).

3. Investing in Québec means benefiting from a highly educated workforce, competitive tax treatment for investment and low business location and operating costs.

4. A balanced budget and the creation of the Generations Fund are two key features of Québec's sound management of public finances.

2008

ECONOMY

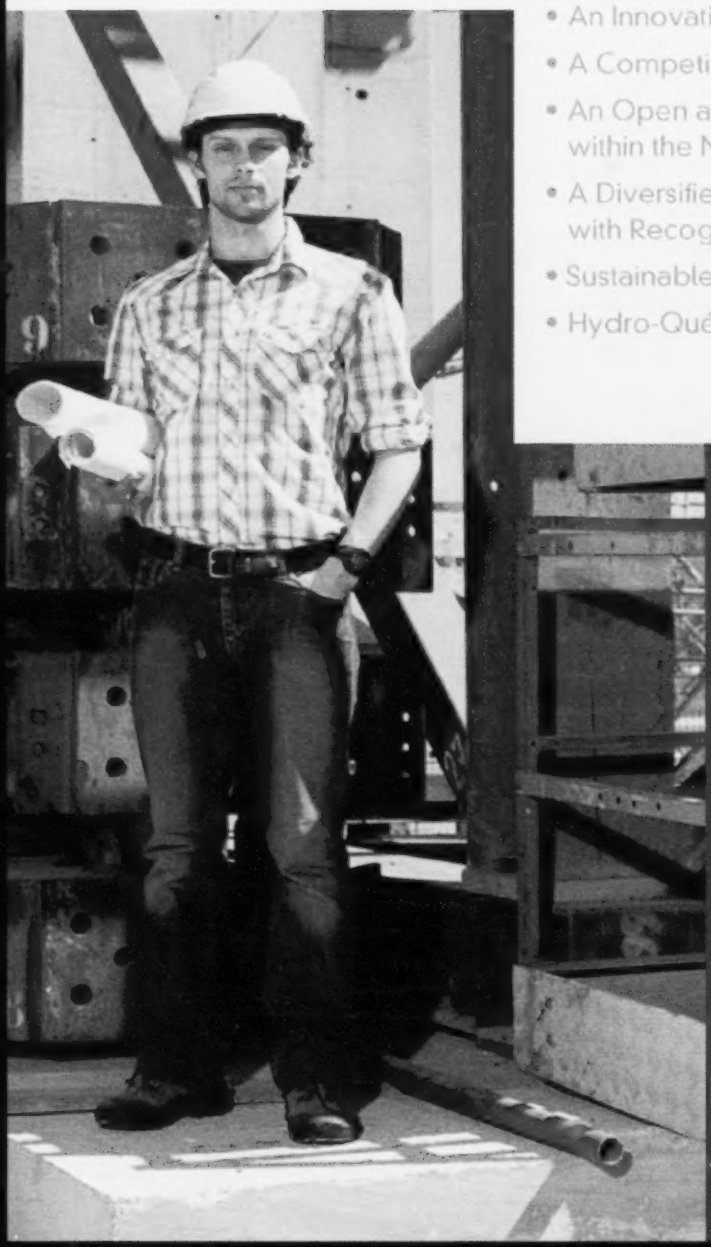
ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC

Québec, a Land of Growth and Investment

Québec

ECONOMY

- Recent Economic Developments and Outlook .2
- An Economy Based on its Human Capital .3
- An Economy Focused on New Technology .4
- An Innovative Economy .6
- A Competitive Economy .7
- An Open and Integrated Economy within the North American Market .8
- A Diversified Economy with Recognition Abroad .9
- Sustainable Development .10
- Hydro-Québec .11



A prime business environment

Recent Economic Developments and Outlook

GOOD ECONOMIC GROWTH

Québec's average annual economic growth was 2% between 2004 and 2007, equal to the average growth since 1981.

The economy's strength is attributable chiefly to robust growth in domestic demand.

- Over the last six years, real consumer spending has grown by more than 3% per year on average.
  - That is above the average of the last twenty years (2.5%).
- Real business non-residential investments rose 21% between 2003 and 2007.
- Since 2003, almost 225 000 jobs have been created in Québec while the unemployment rate has fallen to its lowest level in the last thirty-three years.
  - In 2007, the employment rate remained above 60% for the fifth year in a row and the unemployment rate stood at 7.2%.

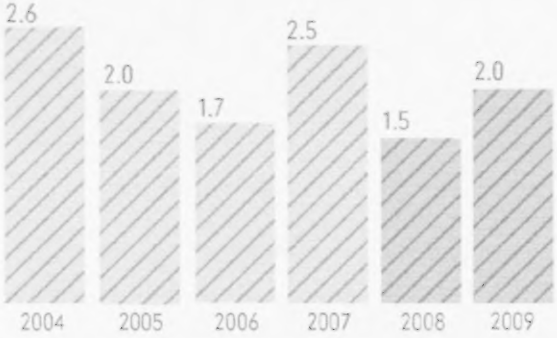
Looking forward, economic growth should reach 1.5% in 2008 and accelerate to 2% in 2009 as the American economy recovers.

- Job creation is expected to average 40 000 over these two years.
- Investments are forecast to rise sharply over the same period.
  - Public and private non-residential investments should reach 13% of GDP in 2008.
  - Further to the unveiling of the 2007-2012 five-year, $30-billion Québec Infrastructures Plan, public investments are expected to grow substantially.

ECONOMIC INDICATORS
(PERCENTAGE CHANGE)

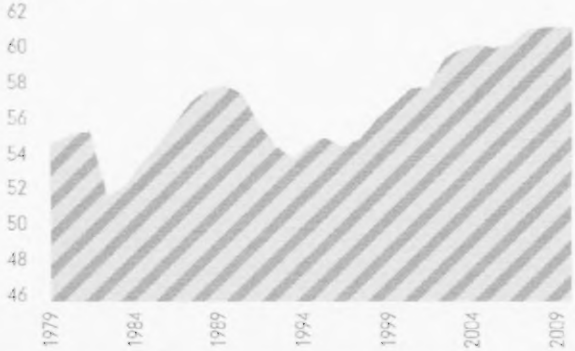
	2007	2008	2009
QUÉBEC			
Real GDP	2.5	1.5	2.0
Consumption	3.6	3.1	2.7
Housing starts (thousands)	48.6	44.6	39.5
International exports	1.8	0.1	2.7
Unemployment rate (%)	7.2	7.0	6.9
Job creation (thousands)	84.3	45.0	34.2
Consumer price index	1.6	1.4	1.8
CANADA			
Interest rate			
Treasury bills (3 months)	4.2	3.5	4.2
Bonds (10 years)	4.5	4.1	4.6
Exchange rate (U.S. cents)	93.0	99.0	95.5

REAL GROSS DOMESTIC PRODUCT
(PERCENTAGE CHANGE)



SOURCES: INSTITUT DE LA STATISTIQUE DU QUÉBEC AND MINISTÈRE DES FINANCES DU QUÉBEC.

EMPLOYMENT RATE
(PERCENT)



SOURCES: STATISTICS CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC.

An Economy Based on its Human Capital

A MODERN ECONOMY

The structure of Québec's economy is comparable with large developed economies.

- The service sector represents 73% of real GDP.
- Québec's exports of goods and services account for 51% of GDP.
  - Almost two thirds are shipped to international markets.
- R&D spending accounts for 2.7% of GDP in Québec.
  - A rate that exceeds the average of G7 countries.
- 61% of Québec women are active in the labour market.

A HIGHLY EDUCATED WORKFORCE

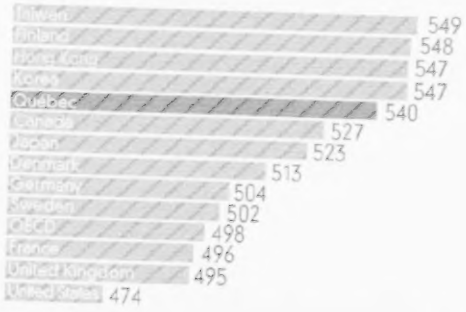
Québec's workforce is educated, diversified and creative.

- 75% of workers in Québec have a secondary school diploma or better.
- The percentage of students holding a postsecondary diploma or certificate stands at 34% in Québec, the highest among the provinces of Canada.
- Of the working age population, 18% hold a university-level diploma.
- Québec students achieved outstanding results in mathematics as part of the 2006 Program for International Student Assessment (PISA).

ALMOST HALF OF QUÉBEC'S POPULATION SPEAKS AT LEAST TWO LANGUAGES

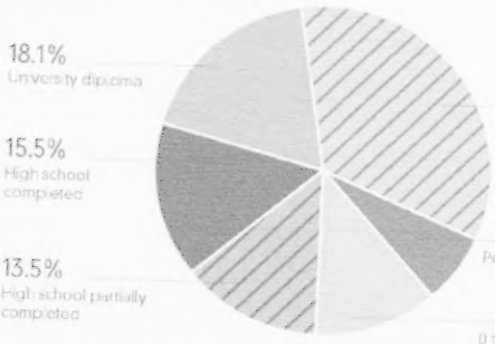
- Two languages are spoken by 36% of Québec's population, while 11% are trilingual.
- Québec's population is the most multilingual of Canada's provinces.
- Québec receives almost 50 000 immigrants a year from every continent.

AVERAGE GRADES IN MATHEMATICS IN THE PISA ASSESSMENT - 2006
(ESTIMATED AVERAGE GRADE)



SOURCE: STATISTICS CANADA

DISTRIBUTION OF QUÉBEC'S WORKFORCE BY LEVEL OF SCHOOLING - 2007



SOURCE: STATISTICS CANADA

An Economy Focused on New Technology

AEROSPACE

In 2006, the value of the aerospace industry in Québec reached $4.3 billion in real terms.

- More than 80% of this output is exported.
- The aerospace industry employs close to 24 000 workers in Québec.

A WORLD-CLASS INDUSTRY

- Bombardier Aerospace, the regional and business jet market leader, launched two new twin-engine jet aircraft in 2007, namely:
  - the Learjet 85 business jet, the latest generation in the Learjet line;
  - the 100-seat CRJ900 regional jet.
- The analytic business unit of ABB Bomem, in Québec City, produced the spatial interferometer of the GOSAT Japanese satellite that will measure and monitor global CO_2 levels.
- The most powerful auxiliary power unit currently in commercial service, and used on the Airbus A380, was made in Québec by Pratt & Whitney Canada.

LIFE SCIENCES

Québec has the highest proportion of biotechnology companies in Canada.

- The ten largest multinational pharmaceutical companies that make patented products have research centres and manufacturing plants in the province.

In 2007, Québec adopted a new prescription drugs policy that favours innovation and indexes prices to the cost of living.

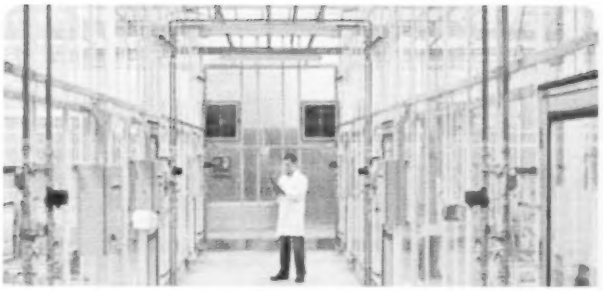
- Pharmaceutical companies reacted favourably to this new policy by making investment decisions worth half a billion dollars.
  - GlaxoSmithKline decided to make its Laval production centre the new head office for research and development of its North American Vaccine division.
  - Charles River Laboratories will build a new preclinical services research centre in Sherbrooke.
  - Sandoz Canada has announced construction of a second manufacturing plant for its generic products and expansion of its laboratories in Boucherville.

An Economy Focused on New Technology

ENVIRONMENTAL TECHNOLOGIES

Québec's environmental industry is based on the development of technologies and advances as scientific and technical breakthroughs are made.

- CO_2 Solution has developed a technology for the massive capture of CO_2 for which it currently holds 12 patents in many countries including the United States and certain European countries.
- The patented tri-composting technology developed by Conporec enables its customers to reclaim more than 70% of waste that would otherwise be sent to landfill sites.
- Enerkem™ technology is based on a low-severity gasification reactor that converts waste and biomass into energy.



A PROMISING SECTOR

The global environmental market is growing in step with the economic development of emerging countries.

Québec's environmental technologies industry specializes in particular in water technologies, waste material management and consulting.

- Cima+, a company that employs more than 1 300 people in Québec and abroad, has carried out environmental studies in Chad where oil exporting facilities are to be located.
- As part of a project identifying and analyzing sources of pollution in the Dnieper River basin, SNC-Lavalin produced a technical methodology that was adopted and published by the United Nations Industrial Development Organization (UNIDO).

INFORMATION AND COMMUNICATIONS TECHNOLOGIES. A PILLAR OF THE KNOWLEDGE ECONOMY

Microelectronics is the spearhead of the ICT sector in Québec, thanks to world-class companies.

- Matrox Imaging, a leader in the design of hardware and software solutions, began selling the Matrox 4Sight X, the latest generation in industrial imaging computers, early in 2008.
- Octasic Inc, a leading designer of multimedia processing solutions, will begin shipping in early 2008 the first Vocallo processors, the next-generation multi-processor DSP platform for gateways intended for voice, video and data applications over IP.
- TeraXion, a world leader in precise control of light, will supply local photonic oscillator systems for synchronization of the 64 antennas of the world's most powerful radio telescope, located on the Atacama plateau in Chile.

VIDEO GAMES. A VIBRANT YOUNG INDUSTRY

Within a few years, Montréal has become a major world centre for the production of interactive games thanks to its cosmopolitan character, multilingual workforce and vibrant cultural life.

Almost 54 companies specializing in the production, publishing and distribution of interactive games are located in the Montréal region, including many world leaders.

- In 2007, Ubisoft which employs almost 2 000 people in Québec, presented its new development plan in Québec calling for the opening of a new digital content production centre for the film industry in Montréal.
- Recently, Artificial Mind & Movement of Montréal partnered with two entertainment giants, Sega and Lucasarts, to produce video games based on movies.

An Innovative Economy

R&D SPENDING: QUÉBEC STANDS OUT

Spending on R&D is growing faster in Québec than in the other provinces of Canada.

- Since 1983, R&D spending in Québec, expressed as a percentage of GDP, has grown by an average of 4.2% per year compared with 2.5% for Ontario and 1.9% for Canada as a whole.
- Since 1995, Québec has been the province that, as a proportion of its GDP, has posted the highest level of R&D spending in Canada.

A TAX SYSTEM THAT ENCOURAGES INNOVATION

Corporate R&D expenditures enjoy favourable tax treatment.

- It is the most competitive in Canada for SMEs and among the most advantageous of the G7 countries for large enterprises.

In the *2008-2009 Budget Speech*, the government announced the implementation of measures to foster innovation, i.e.:

- a new 30% tax credit to help Québec businesses adopt information technologies;
- an improvement to the tax credits for R&D enabling SMEs to obtain more tax assistance at the higher rate and encouraging the formation of partnerships bringing together companies and public research organizations.

GROSS DOMESTIC EXPENDITURES ON R&D, 2005

(AS A PERCENTAGE OF GDP)

Québec	2.7
G7	2.4
OECD	2.3
European Union	1.7

A LEADER AMONG INDUSTRIALIZED COUNTRIES

In 2005, Québec allocated 2.7% of its GDP to R&D.

- This level is higher than the average of OECD, G7 and European Union countries.

Québec's objective is for R&D spending to reach 3% of its GDP by 2010.

A LEADER IN VENTURE CAPITAL

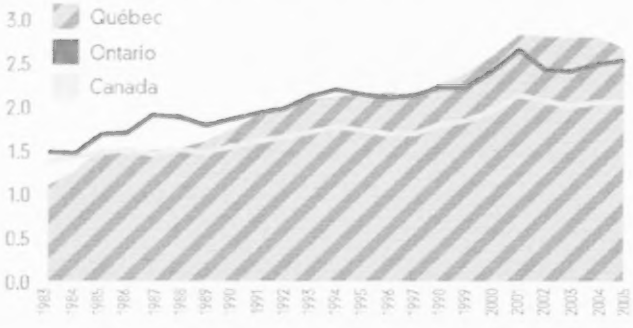
Québec ranks first in Canada in venture capital management with almost 50% of capital under management.

In 2007, venture capital investment in Québec rose for the third year in a row.

- Of the $648 million invested, private and foreign investors accounted for over 60%.

GROSS DOMESTIC EXPENDITURES ON R&D

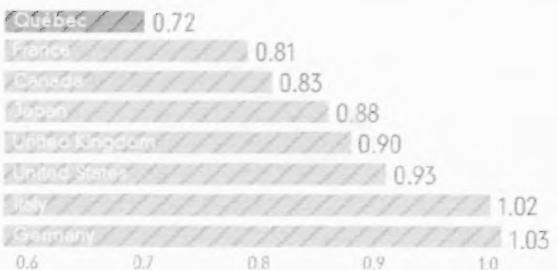
(AS A PERCENTAGE OF GDP)



SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC

NET AFTER-TAX COST OF AN R&D EXPENDITURE[1, 2]

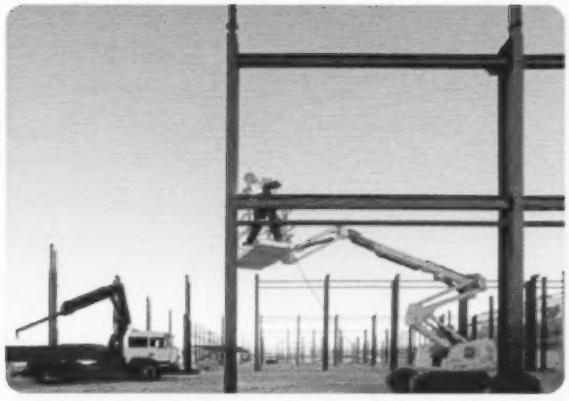
(IN DOLLARS)



1. Large business. Net after-tax cost of an expenditure of $1 in R&D corrected to reflect the level of corporate income tax. The lower the index, the more generous the tax environment.
2. For Québec, the rate of tax assistance in effect on January 1, 2007. For the other jurisdictions, the rate of tax assistance in effect in 2005-2006.

SOURCES: *OECD SCIENCE, TECHNOLOGY AND INDUSTRY (STI) OUTLOOK 2006* AND MINISTÈRE DES FINANCES DU QUÉBEC

A Competitive Economy



LOW BUSINESS LOCATION AND OPERATING COST

Despite the substantial appreciation of the Canadian dollar against its American counterpart, business location and operating costs in Québec are still among the lowest of the major industrialized countries.

- According to the most recent figures, these costs are 3.5% lower than the Canadian average, 4.1% lower than in the United States and 10.4% below the average of the G7 countries.
- In particular, Québec stands out with attractive labour and transportation costs as well as a competitive tax system.

A COMPETITIVE TAX SYSTEM FOR INVESTMENT

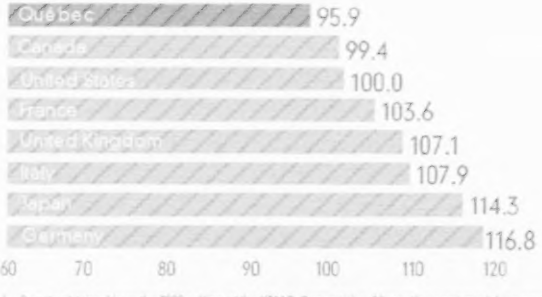
Companies in Québec operate under a globally competitive tax system for new investments.

The tax rate on investment in Québec is below the average rates of the United States and the G7. Moreover, it is one of the lowest in Canada, mainly due to:

- a tax rate on business profits among the lowest in North America;
- the rebate of the Québec sales tax on capital goods;
- the elimination of the tax on capital, in 2008, for manufacturing businesses and by January 1, 2011 for all businesses;
- an investment tax credit of 5% on acquisitions of manufacturing and processing equipment.

INDEX OF BUSINESS LOCATION AND OPERATING COSTS[1]

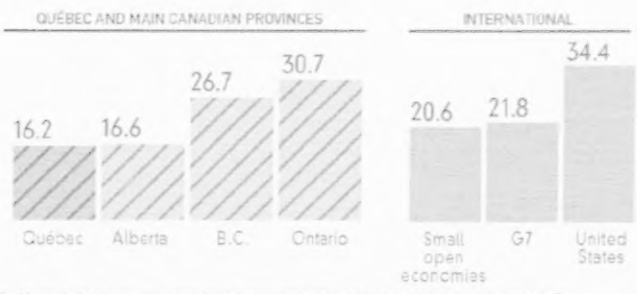
(UNITED STATES = 100)



1 Results obtained from the 2009 edition of the KPMG Competitive Alternatives cost model, incorporating parity of the Canadian dollar with the American dollar. The lower the index, the lower the business location and operating costs in the jurisdiction concerned.

MARGINAL EFFECTIVE TAX RATES ON INVESTMENT[1] IN 2012

(PERCENT)



1 Marginal effective tax rates are global indicators of the impact of the tax system on new investments. They represent the effect of all tax charges and rules affecting the return on capital invested.

SOURCES : KPMG COMPETITIVE ALTERNATIVES MODEL AND MINISTÈRE DES FINANCES DU QUÉBEC.

An Open and Integrated Economy within the North American Market

QUÉBEC PRODUCTS ARE RECOGNIZED THROUGHOUT THE WORLD

Thanks to a diversified industrial structure, Québec's exporters have developed numerous business relationships throughout the world.

- Almost 75% of international exports were shipped to the United States in 2007.
- Europe, Québec's second-largest customer, receives close to 14% of its international exports.
- Asia ranks third among export destinations.
  - The share of Québec's exports shipped to the Asian market has almost doubled over the last seven years.

Québec is a world leader on a number of markets.

- Québec is a world leader in aeronautics products for the civilian market.
- Québec is the world's second-largest exporter of aluminum.

AN ECONOMY INTEGRATED WITH THE NORTH AMERICAN MARKET

The North American Free Trade Agreement (NAFTA) gives Québec access to a market of more than 440 million consumers.

- Québec's main manufacturing exports to the United States are transportation equipment, metals, paper and wood products.

BUILDING STRONG COMMERCIAL RELATIONS

- In the future, Québec hopes to consolidate its commercial relations with the Eastern and Mid-Atlantic states by developing the clean energy, biotechnology, security and agri-food sectors.
- Québec intends to renovate and develop the major road infrastructures leading to the American border, i.e. highways 15, 55 and 73.
- In 2007, the Premiers of Ontario and Québec signed a joint statement on the implementation of a trade accord to eliminate trade barriers and improve labour mobility between the two provinces.

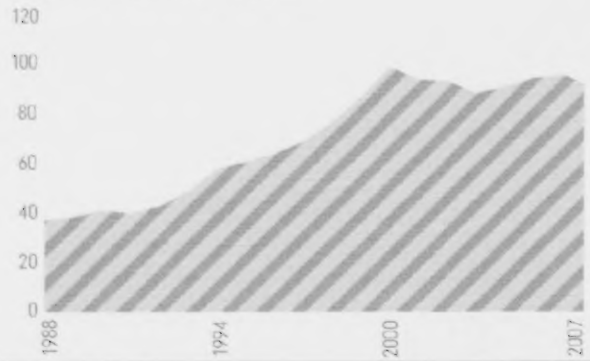
QUÉBEC'S AVERAGE ANNUAL GROWTH IN MERCHANDISE EXPORTS - 1998-2007

(PERCENT)

SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC.

INTERNATIONAL EXPORTS

(BILLIONS OF 2002 CHAINED DOLLARS)



SOURCE: STATISTICS CANADA.

A Diversified Economy with Recognition Abroad

QUÉBEC'S DIVERSITY

- The many facets of Québec's territory make it the most diversified economy in Canada. Its industrial diversity index is 102.8 compared with 97.1 for Ontario. Québec's economy is the only one with an industrial diversity index above that of the Canadian economy.
- Québec is divided into 17 administrative regions. Each one possesses a unique potential.
- Many regional specialties position Québec as a leader in North America and the world.
  - Abitibi-Témiscamingue is known the world over for its abundant deposits of precious metals, copper and zinc.
  - Bas-Saint-Laurent has earned a reputation for maritime expertise and stands out in the marine biotechnology sector.
  - Saguenay–Lac-Saint-Jean is a major player in aluminum production.
  - Montréal is known throughout the world in the fields of life sciences and video games.

A LEADING-EDGE FINANCIAL SECTOR

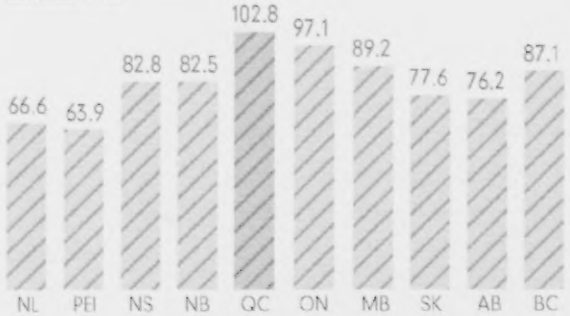
Québec and Canada have a sound, efficient and transparent financial sector, the result of effective harmonization and a policy of constantly improving the regulatory and market supervision framework.

The financial sector plays a key role in the creation of wealth. It alone accounts for over 6% of all economic activity in Québec.

- Many Québec financial institutions are well-known abroad, including the Caisse de dépôt et placement du Québec, the largest institutional fund manager in Canada. In addition, 116 international financial centres specializing in international financial transactions are located in Montréal, hiring and employing highly skilled workers.
- As the only Canadian financial derivatives exchange, the Montréal Exchange is a leader in three areas of finance: financial derivatives, information technology solutions and clearing services. The combined activity of the trading platforms operated by the Montréal Exchange, including its participation in the Boston Options Exchange (BOX), grew 28% in 2007.
- On December 10, 2007, the Montréal Exchange and TSX Group announced that they had agreed to combine their businesses and create TMX Group, a major integrated exchange group, subject to the required authorizations from regulatory authorities.

PROVINCIAL INDEX OF INDUSTRIAL DIVERSITY - 2006[1]

(CANADA = 100)

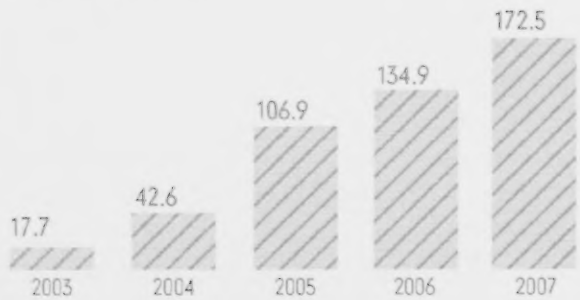


1 Preliminary estimates.

SOURCE: MINISTÈRE DU DÉVELOPPEMENT ÉCONOMIQUE, DE L'INNOVATION ET DE L'EXPORTATION, SPECIAL COMPILATION USING THE STATISTICS CANADA REGISTER OF BUSINESSES.

TOTAL TRADE VOLUME MONTRÉAL EXCHANGE AND BOX

(MILLIONS OF CONTRACTS)



SOURCE: MONTRÉAL EXCHANGE.

Sustainable Development

FOREST RESOURCES

A country of lakes and rivers, Québec is also a land of forests.

- Québec's forests account for 20% of Canada's and 2% of the world's forests.
- Québec's forests are managed sustainably.

Québec is Canada's leader in designing wood-based value-added products.

- Québec products using structural wood, engineered wood and show wood fill needs in residential, commercial, industrial and institutional construction.
- Québec is also working to develop new value-added papers such as intelligent paper, bioactive paper and paper using nanotechnology.

MINING RESOURCES

Today, Québec ranks among the world's leading producers of iron, zinc, nickel, silver and gold.

- According to an international survey of mining companies in 2007-2008 conducted by the Fraser Institute, Québec offers the most favourable environment for mining investment in the world.
  - Québec, ranked first, offers the best mining policies.
  - Québec ranks first in Canada and second in the world for its mineral potential.
- The tax system pertaining to mining in Québec is among the most advantageous in Canada.

A WINNING STRATEGY

Québec's energy strategy for 2006-2015 is decidedly focused on the development of clean energy, i.e. hydroelectricity and wind power.

These guidelines have been incorporated into Hydro-Québec's strategic plan, which stipulates:

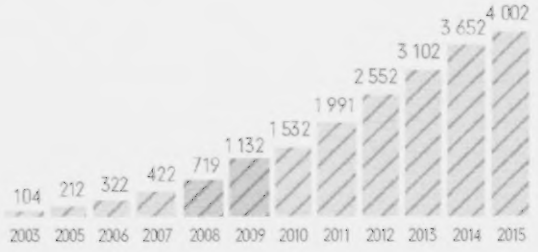
- gradual integration into Hydro-Québec's network of 4 000 megawatts of wind power production capacity;
- a portfolio of hydroelectric projects totalling over 4 500 megawatts;
- speeding up the completion of hydroelectric projects to increase production capacity. These include in particular the Eastmain-1-A–Sarcelle–Rupert generating stations and the Péribonka hydroelectric development. These two projects will add 1 278 megawatts to Hydro-Québec's current production capacity, amounting to 35 315 megawatts, and generate 10.7 terawatthours per year.
- implementation of an overall energy efficiency plan producing annual energy savings of over 4.7 terawatthours for 2010 and 8 terawatthours by 2015.

RANKING OF PLACES WITH THE BEST MINING POLICIES, 2007-2008

SOURCE: FRASER INSTITUTE

GROWTH OF INSTALLED WIND POWER CAPACITY, 2003-2015

(MEGAWATTS)



SOURCE: MINISTÈRE DES RESSOURCES NATURELLES ET DE LA FAUNE DU QUÉBEC.

Hydro-Québec

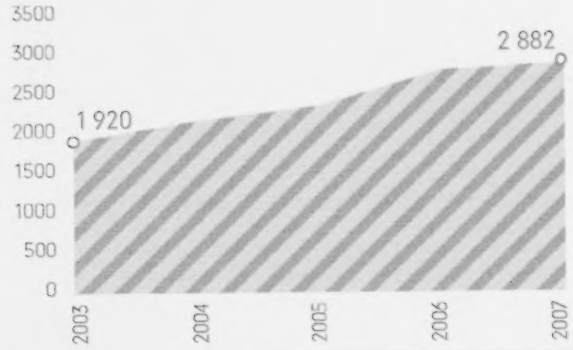
HYDRO-QUÉBEC
2007 Highlights
(IN MILLIONS OF DOLLARS)

Products	12 338
Earnings from ongoing activities	2 882
Net earnings	2 907
Total assets	64 852
Staff level (persons)	23 569
Installed capacity (megawatts)	55 647

A PILLAR OF SUSTAINABLE DEVELOPMENT IN QUÉBEC

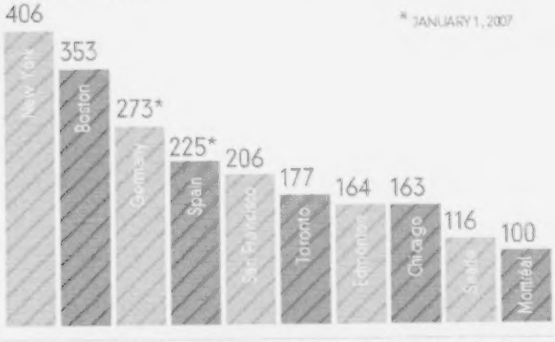
- Created in 1944, Hydro-Québec is a government corporation whose sole shareholder is the Québec government.
- Hydro-Québec produces, transmits and distributes electricity. It develops essentially renewable energy, hydro-electricity in particular. It supports the development of wind power through its purchases from private producers. For a number of years, it has promoted energy efficiency and implemented programs that produce energy savings for its customers.
- In 2007, water power accounted for 97% of energy production. This is a green and renewable source of energy with a high degree of flexibility for development and a very small greenhouse gas footprint.
- In 2007, Hydro-Québec began work on the major Eastmain-1-A–Sarcelle–Rupert project in James Bay, brought the Mercier generating station in Outaouais on stream and brought the first turbine-alternator group on stream at the Péribonka generating station in Saguenay–Lac-Saint-Jean. Hydro-Québec also continued construction of the Chute-Allard and Rapides-des-Cœurs projects in Mauricie.
- Hydro-Québec operates the most extensive electricity transmission network in North America for the benefit of its customers within and outside Québec. It trades electricity with the networks of neighbouring provinces and the northeastern United States.
- In 2007, Hydro-Québec allocated substantial resources to the development of the transmission network, in particular to incorporate new equipment and increase transit capacity with Ontario.

EARNINGS FROM ONGOING ACTIVITIES
(MILLIONS OF DOLLARS)



SOURCE: HYDRO-QUÉBEC'S ANNUAL REPORT.

COMPARATIVE INDEX OF ELECTRICITY PRICES FOR LARGE CORPORATE CUSTOMERS
(MONTRÉAL = 100)



SOURCES: HYDRO-QUÉBEC, COMPARISON OF ELECTRICITY PRICES IN MAJOR NORTH AMERICAN CITIES, APRIL 1, 2007; EURELECTRIC, ELECTRICITY TARIFFS AS OF 1 JANUARY 2007 (PUBLISHED TARIFFS).

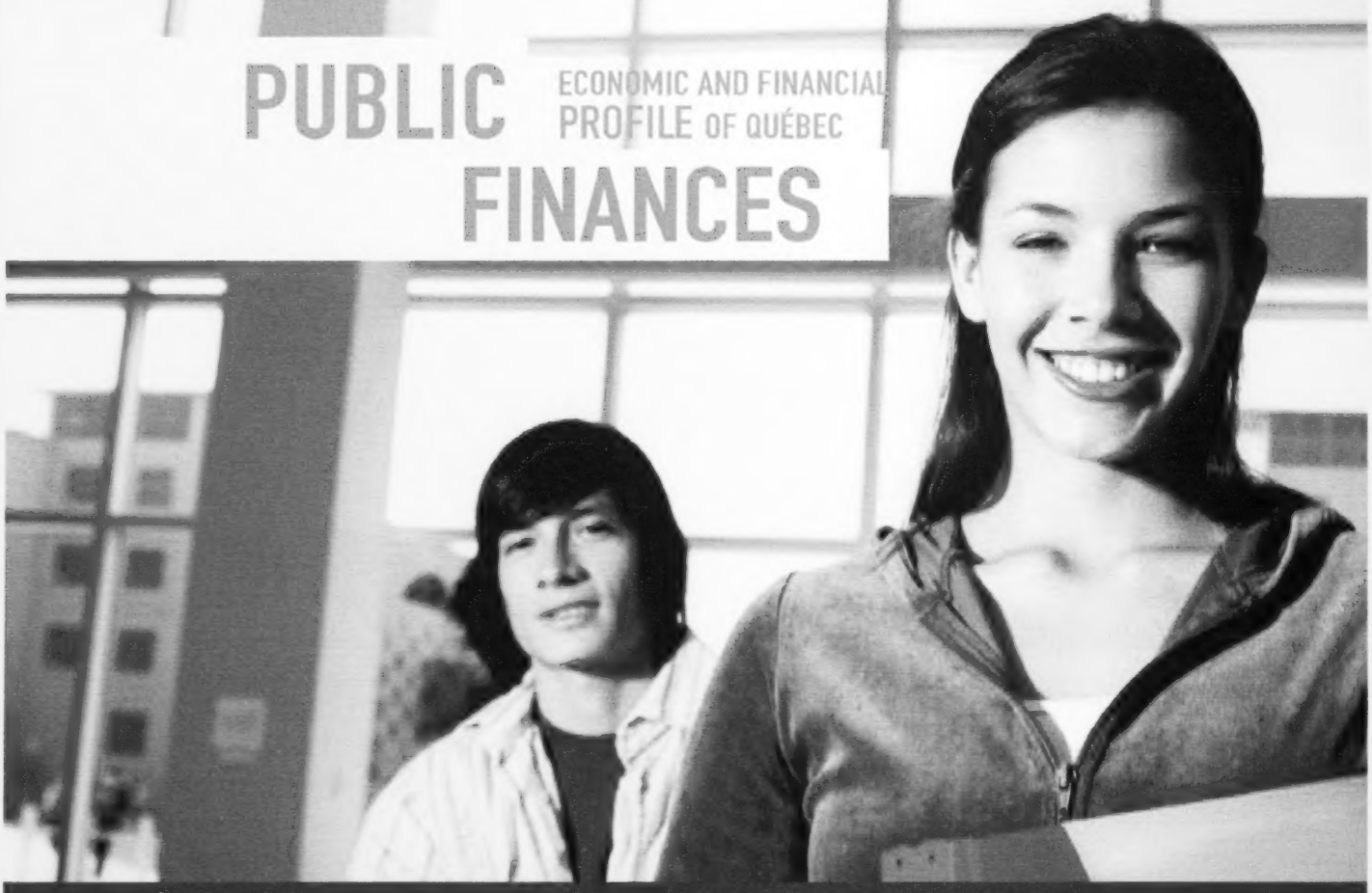
ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC – 2008 EDITION April 2008

Finances Québec

2008

PUBLIC FINANCES

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC



Québec, a Prudent and Disciplined Manager

Québec

PUBLIC FINANCES

- Responsible Management of Public Finances .2
- A Budget of Prudence and Discipline .4
- The Generations Fund: a Positive Step for our Future .6

A government determined to maintain sound management of public finances

Responsible Management of Public Finances

A BALANCED BUDGET

- In accordance with the *Balanced Budget Act*, the budget will be balanced each year of the financial framework.

VIGILANT CONTROL OVER SPENDING

- The government keeps tight control over its spending.
  - Program spending growth in Québec averaged 4.5% from 2003-2004 to 2007-2008 compared to 6.8% for the provinces on average.
- Program spending growth is limited to 4.2% in 2008-2009.
- As a result of this budgetary discipline, program spending has declined in relation to GDP.
  - This ratio will amount to 18.4% in 2008-2009, one of the lowest levels in the last 35 years.

PRIORITIES: HEALTH AND EDUCATION

- Rigorous spending management has made it possible to allocate substantial funds to Quebecers' priorities: health and education.
  - These essential government missions have received substantial funding increases in recent years.
- The government is allocating 45% of its program spending to the health sector in 2008-2009.
  - The health budget is up $1.3 billion in 2008-2009, a rise of 5.5%.
- Education accounts for 25% of government spending.
  - In 2008-2009, spending on education will rise by $612 million, an increase of 4.6%.

SUMMARY OF 2008-2009[P] CONSOLIDATED BUDGETARY OPERATIONS

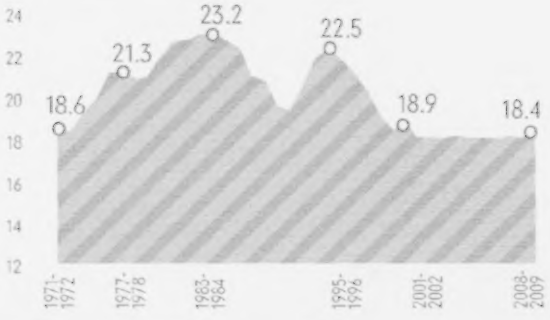
(MILLIONS OF DOLLARS)

	2007-2008	2008-2009
BUDGETARY REVENUE	62 920	62 980
BUDGETARY EXPENDITURE		
Program spending	- 54 635	- 56 948
Debt service	- 7 003	- 6 907
TOTAL BUDGETARY EXPENDITURE	- 61 638	- 63 855
NET RESULTS OF CONSOLIDATED ENTITIES	- 162	447
Contingency reserve	—	- 200
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	1 120	- 628
Deposit of dedicated revenues in the Generations Fund	- 403	- 742
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE	717	- 1 370
Deposit in the Generations Fund from the budgetary reserve	- 200	—
Budgetary reserve	517	1 370
BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	0	0

P : Preliminary results for 2007-2008 and forecasts for 2008-2009.

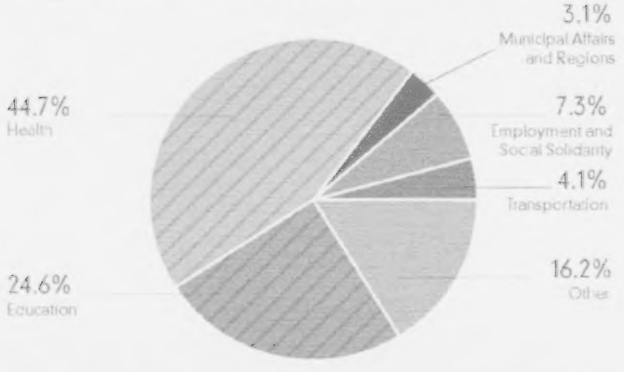
PROGRAM SPENDING

(AS A PERCENTAGE OF GDP)

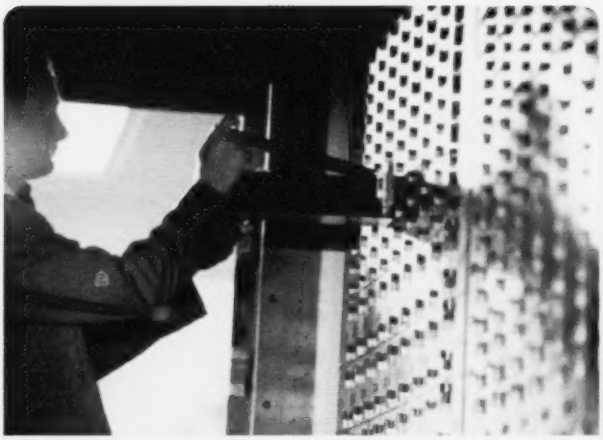


N.B.: Preliminary results for 2007-2008 and forecasts for 2008-2009.

PROGRAM SPENDING BY DEPARTMENT, 2008-2009



Responsible Management of Public Finances



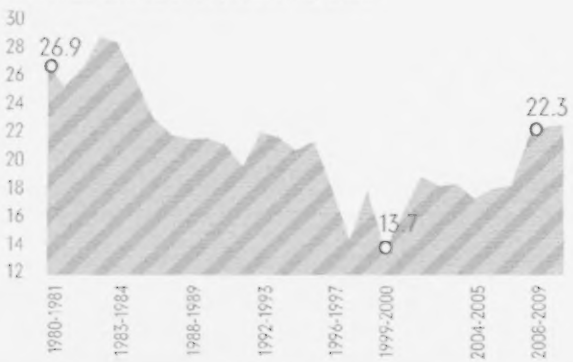
THE CANADIAN FEDERATION

- Québec is part of Canada, a federation created in 1867.
- The jurisdictions of the federal government and the ten provinces are defined in the Constitution.
  - The federal government is responsible for international trade, national defense, currency, monetary policy and employment insurance, among other things.
    The provinces have exclusive jurisdiction in many fields including health, education, social services and municipal affairs.
- The various orders of government in Canada collect revenue equivalent to 36% of GDP, of which:
  - 45% is collected by the federal government;
    55% is collected by provincial governments and local administrations (municipalities and school boards).

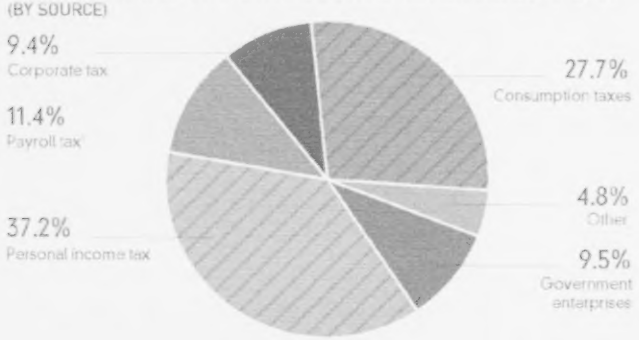
DIVERSIFIED REVENUE SOURCES

- Québec's revenue comes from two sources:
  - own-source revenue (77.7%);
  - federal transfers (22.3%).
- Most of own-source revenue is derived from the personal income tax (37%) and taxes on consumption (28%).
- Québec is one of the six provinces that receive transfer payments under the federal Equalization Program. These transfers account for more than half of federal transfers to Québec.
  - Québec and the nine other provinces also receive transfers for social programs such as health care and post-secondary education.

FEDERAL TRANSFERS
(AS A PERCENTAGE OF BUDGETARY REVENUE)



THE GOVERNMENT'S OWN-SOURCE REVENUE, 2008-2009
(BY SOURCE)



1 Contributions to the Health Services Fund.

A Budget of Prudence and Discipline

TAX CUTS

- Personal income tax is reduced by $950 million as of January 1, 2008.
- Between 2003 and 2008, Québec has moved from ninth to fifth place among provinces with the lowest tax burden.

A BETTER BUSINESS ENVIRONMENT TO IMPROVE PRODUCTIVITY

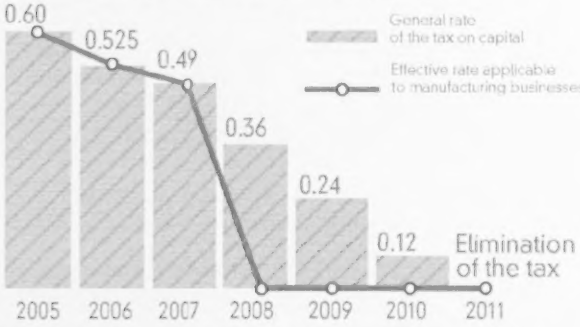
- The capital tax on manufacturers is eliminated in 2008. It will be eliminated after December 31, 2010 for all businesses.
- A new 5% investment tax credit is introduced for manufacturing businesses. The rate rises to as much as 40% for investments in certain regions.
- A new tax credit of 30% of salaries is now available for the development of e-business.
- Investments in manufacturing and processing equipment will be eligible for an accelerated depreciation deduction until 2011.

INFRASTRUCTURE INVESTMENTS

- The government continues to increase investments in the road network.
  - The government expects to invest $10.3 billion by 2012 to improve road network infrastructures, i.e. an average of $2.1 billion per year.
- The government continues to implement the 2007-2012 Québec Infrastructures Plan, a five-year, $30-billion plan in addition to project completions amounting to another $7.6 billion.
  - Annual investments of more than $6 billion in public infrastructures until 2011-2012.

PLAN FOR ELIMINATING THE TAX ON CAPITAL

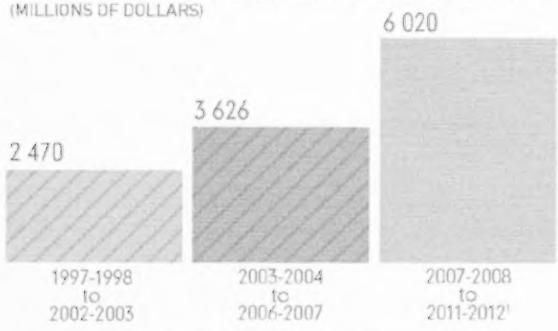
(APPLICABLE RATE OF THE TAX ON CAPITAL, IN PER CENT)



1 The elimination of the tax on capital for manufacturing businesses consists of a specific deduction in the calculation of taxable capital.

AVERAGE ANNUAL INVESTMENTS BY THE QUÉBEC GOVERNMENT IN FIXED ASSETS

(MILLIONS OF DOLLARS)



1 These investments do not include, as of 2007-2008, $7.6 billion over five years for the completion of projects already under way.

SOURCE: SECRÉTARIAT DU CONSEIL DU TRÉSOR.

Improving the Productivity

IMPROVING PRODUCTIVITY REQUIRES INCREASING INVESTMENTS IN BUSINESS MODERNIZATION.

The Generations Fund: a Positive Step for our Future

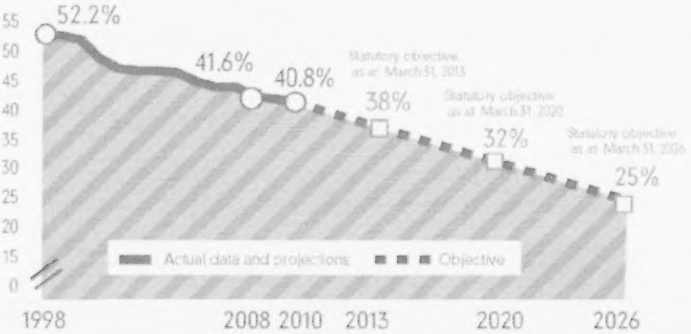
DEBT REPAYMENT: A PRIORITY FOR THE GOVERNMENT

- The assets of the Generations Fund are administered by the Caisse de dépôt et placement du Québec.
- The amounts accumulated in the Generations Fund will reach:
  - $1.2 billion as at March 31, 2008;
  - $2.7 billion as at March 31, 2010.
- By 2026, the debt accumulated to pay for current spending will be reduced substantially. In absolute terms, it will have been reduced by almost half.
- This unprecedented initiative reflects the government's determination to maintain the level and quality of public services Quebecers rely on.

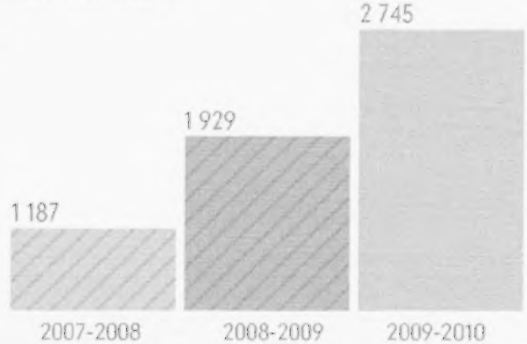
ACTING DECISIVELY TO REDUCE THE DEBT BURDEN

- The Québec government set up the Generations Fund to bring the total debt/GDP ratio down to 25% by 2026.
- This initiative will help improve fairness toward future generations.
- The Act to reduce the debt and establish the Generations Fund sets specific targets to be met with respect to the total debt/GDP ratio:
  - 38% as at March 31, 2013, 32% as at March 31, 2020, 25% as at March 31, 2026.

REDUCTION OF THE GOVERNMENT'S TOTAL DEBT
(AS A PERCENTAGE OF GDP)



THE GENERATIONS FUND'S BALANCE
(MILLIONS OF DOLLARS)



The Generations Fund: a Positive Step for our Future

BANKING ON WATER. QUÉBEC'S BLUE GOLD

- The chief source of financing for the Generations Fund is royalties from a resource Québec has in abundance: water.
  - Water-power royalties paid by Hydro-Québec and private producers of electricity are paid into the Fund.
- Thanks to Hydro-Québec, an additional $700 million has been deposited in the Generations Fund:
  - $500 million from the sale of a foreign asset deposited in February 2007;
  - $200 million in October 2007.
- Between 2010-2011 and 2025-2026, the government will deposit an additional $400 million per year, on average, into the Generations Fund.
  - These contributions will be drawn from the additional profits Hydro-Québec will earn on its exports of electricity.

IMPROVE FAIRNESS TOWARDS FUTURE GENERATIONS.

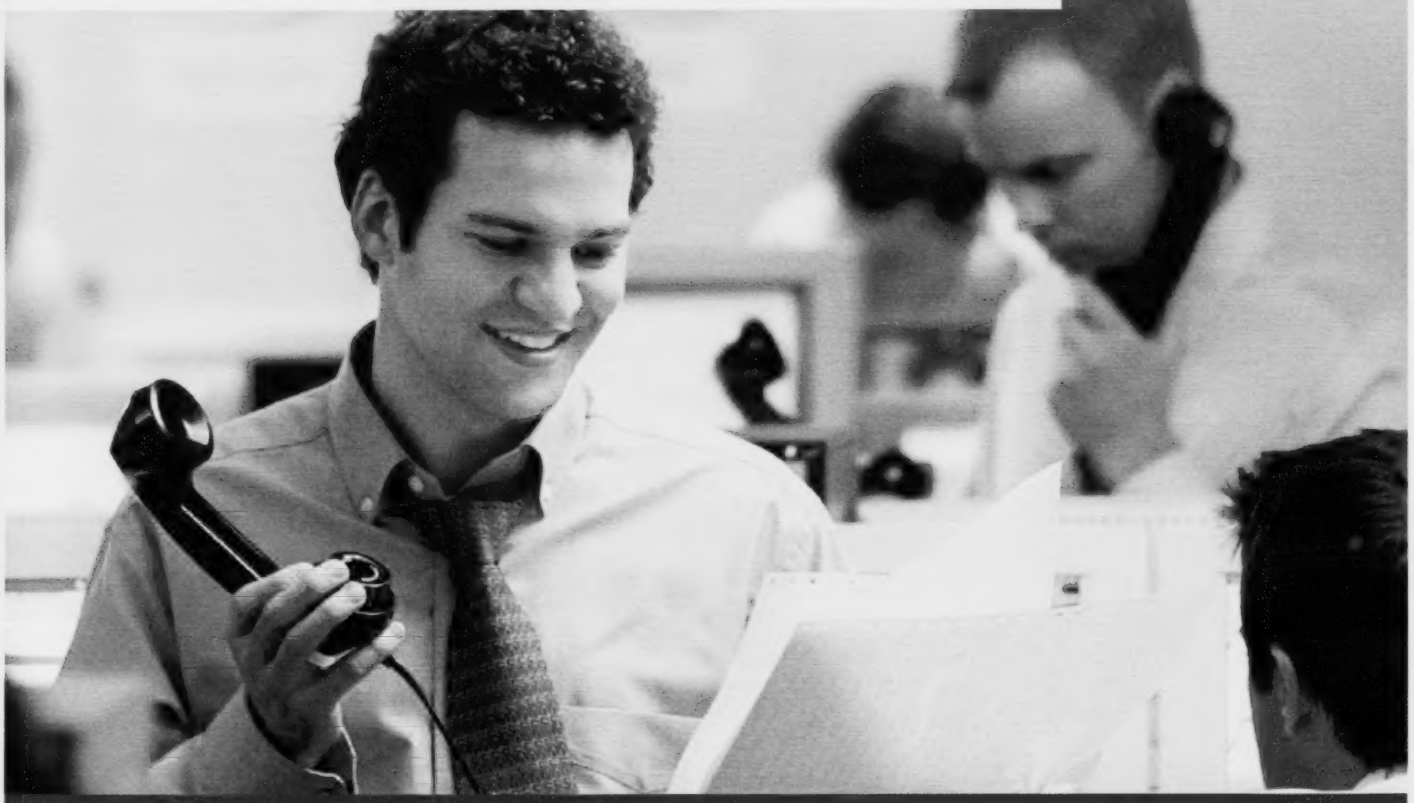
ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC - 2008 EDITION April 2008

Finances
Québec

2008

FINANCING

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC



Québec, a Major Player on Canadian and International Financial Markets

Québec

FINANCING

- Financing Programs .2
- High Credit Quality .3
- A Major Issuer on the Canadian Market .4
- A Regular Presence on International Markets .5
- Debt Management .6

Diversification of sources of financing

Financing Programs

CONSOLIDATED REVENUE FUND AND FINANCING FUND

- The financing program is designed essentially to:
  - repay maturing borrowings;
  - contribute to a sinking fund for future payment of retirement benefits to public and parapublic sector employees;
  - make loans to certain consolidated entities and government corporations through the Financing Fund.

FINANCEMENT-QUÉBEC

- Financement-Québec is a government-owned corporation that borrows on financial markets to meet the needs of institutions of the health and education networks to fund their capital investments.
  - These organizations thus enjoy lower borrowing costs.
  - The Québec government guarantees the borrowings of Financement-Québec.

HYDRO-QUÉBEC

- Hydro-Québec's borrowings are guaranteed by the Québec government.

FINANCING PROGRAMS
(MILLIONS OF DOLLARS)

QUÉBEC GOVERNMENT[P]

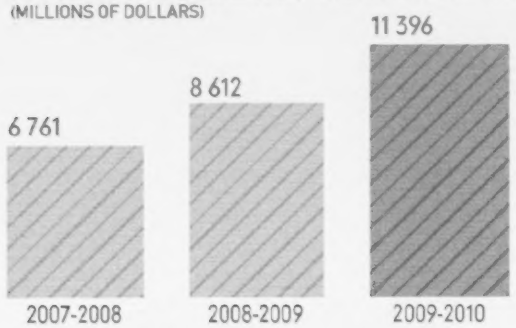
	2007-2008	2008-2009	2009-2010
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus)[1]	1 200	1 600	1 100
Repayments of borrowings	4 057	4 316	5 319
Change in cash position	- 6 069	- 1 987	—
Retirement Plans Sinking Fund and funds dedicated to employee future benefits	4 894	5 885	4 677
Transactions under the credit policy[2]	1 172	—	—
Pre-financing	1 987	—	—
TOTAL - CONSOLIDATED REVENUE FUND	4 841	6 612	8 896
FINANCING FUND[3]	1 920	2 000	2 500
SUBTOTAL - CONSOLIDATED REVENUE FUND AND FINANCING FUND[1]	6 761	8 612	11 396
FINANCEMENT-QUÉBEC	2 009	2 500	2 500
TOTAL	8 770	11 112	13 896

HYDRO-QUÉBEC

2007	2008	2009
2 039	1 100	4 000

P: Preliminary results for 2007-2008 and forecasts for subsequent years.
N.B.: A negative amount indicates a source of financing and a positive amount, a financial requirement.
1 Excluding consolidated entities.
2 Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government made disbursements for a total of $1 172 million in 2007-2008 following exchange rate movements. These disbursements, funded with new borrowings, are similar to a debt repayment and therefore have no impact on the size of the government's debt.
3 The Financing Fund makes loans to consolidated entities and certain government corporations.

FINANCING PROGRAM
CONSOLIDATED REVENUE FUND AND FINANCING FUND[P]
(MILLIONS OF DOLLARS)



P: Preliminary results for 2007-2008 and forecasts for subsequent years.

FINANCING PROGRAM
FINANCEMENT-QUÉBEC[P]
(MILLIONS OF DOLLARS)

P: Preliminary results for 2007-2008 and forecasts for subsequent years.

High Credit Quality

CREDIT RATINGS

AGENCY	RATING	OUTLOOK
Moody's	Aa2	Stable
Standard & Poor's	A+	Positive
Dominion Bond Rating Service	A (high)	Stable
Fitch Ratings	AA	Positive
Japan Credit Rating Agency	AA+	Stable

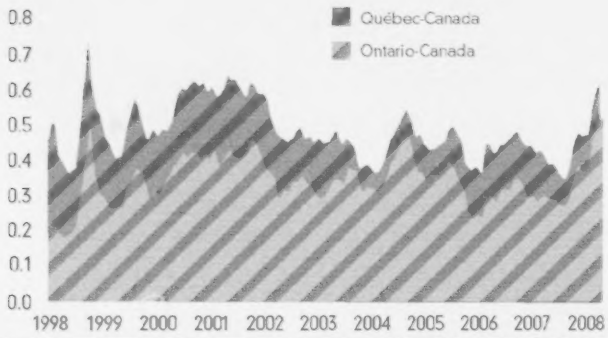
IMPROVEMENT IN CREDIT RATINGS

- In 2006, two rating agencies raised Québec's credit rating:
  - Moody's raised it twice:
    - in June, it went from A1 to Aa3;
    - in November, it was raised to Aa2.
  - DBRS raised the rating from A to A (high) in June.
- Since 2007, two agencies have raised the outlook associated with Québec's credit rating from stable to positive i.e.:
  - Standard & Poor's on July 6, 2007.
  - Fitch Ratings on January 9, 2008.

COMMENTS FROM CREDIT AGENCIES

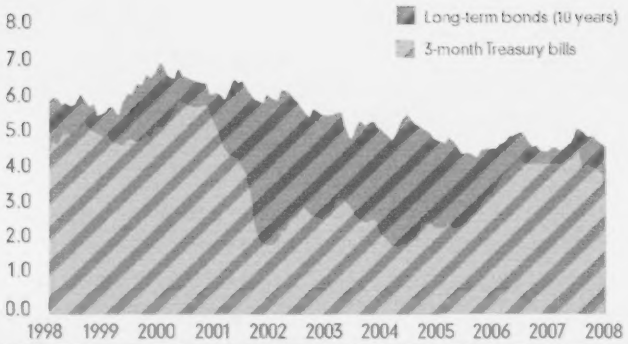
- Moody's, June 2006:
  - "Progress in meeting fiscal goals in recent years has reflected successful implementation of expenditure controls and increased federal transfers."
  - "Of key importance to the improvement in credit quality is the government's development of a clear strategy for debt abatement."
- Standard & Poor's, June 2006:
  - "The ratings on the Province of Québec are supported by [...] the province's commitment to reduce its overall debt burden in the long term through deposits in its newly created Generations Fund."
  - "The ratings on the Province of Québec are supported by [...] the province's large and well-diversified economy, which benefits from strong manufacturing and service sectors."

YIELD SPREAD ON 10-YEAR LONG-TERM SECURITIES
(PERCENT)



SOURCE: PC-BOND.

YIELD ON QUÉBEC SECURITIES
(PERCENT)



SOURCES: PC-BOND AND MINISTÈRE DES FINANCES DU QUÉBEC.

A Major Issuer on the Canadian Market

HIGHLY LIQUID PUBLIC OFFERINGS

- Public offerings form the majority of the government's transactions on the Canadian market.
- To bolster the liquidity of its bonds, the government sets benchmark issues and reopens them many times, until the amount outstanding is optimal.

DIVERSIFICATION BY MATURITY

- Québec borrows at all maturities: from 5 years to almost 70 years.
- In 2007-2008, borrowings of $2.4 billion were made at maturities of 30 years or more. One of these borrowings matures in 2076.

A REGULAR MATURITY SCHEDULE

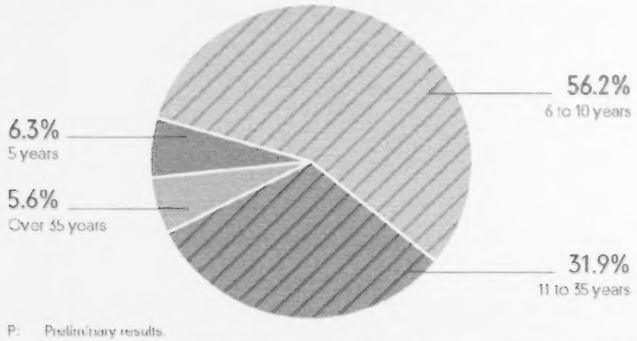
- Diversifying borrowings by maturity results in a stable refinancing schedule, which ensures a regular presence on financial markets.
- The average maturity of the debt is 11.2 years.

BENCHMARK ISSUES IN CANADA

	COUPON (%)	MATURITY	OUTSTANDING (millions of dollars)
Short-term	5.50	2009	2 498
	6.25	2010	2 631
	6.00	2012	2 122
Medium-term	5.25	2013	2 152
	5.50	2014	2 500
	5.00	2015	2 500
	4.50	2016	3 000
	4.50	2017	4 000
	4.50	2018	1 000
Long-term	9.375	2023	2 202
	6.00	2029	2 737
	6.25	2032	4 200
	5.75	2036	4 083
	5.00	2058	4 000
Very long-term[1]	5.00	2051	420
	Various	2056	1 500
	6.70	2062	350
	6.35	2065	915
	Various	2076	500

1. Private borrowings in Canadian dollars.

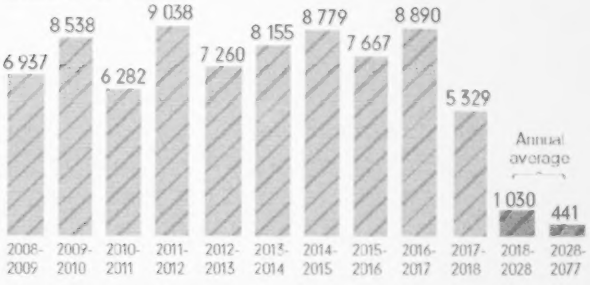
QUÉBEC GOVERNMENT BORROWINGS COMPLETED IN 2007-2008[P] BY MATURITY



P: Preliminary results.

QUÉBEC GOVERNMENT MATURITY OF THE DEBT AS AT MARCH 31, 2008[P]

(MILLIONS OF DOLLARS)



P: Preliminary results.
N.B.: Direct debt of the Consolidated Revenue Fund, debt incurred to make advances to the Financing Fund and debt of Financement-Québec.

A Regular Presence on International Markets

ISSUES IN US DOLLARS

COUPON %	MATURITY	OUTSTANDING (millions of US dollars)
5.75	2009	1 000
6.125	2011	1 000
4.875	2014	1 000
4.60	2015	1 000
5.00	2016	1 250
5.125	2016	1 500
7.50	2025	1 000
7.125	2024	1 000
7.50	2029	1 500

ISSUES IN EUROS

		OUTSTANDING (millions of euros)
5.625	2011	1 500
4.25	2015	1 000
3.625	2015	1 500
5.375	2016	1 500

ISSUES IN OTHER CURRENCIES

MARKET			OUTSTANDING (millions of currency units)
YEN	3.00	2009	100 000
	1.60	2013	50 000
SWISS FRANC	3.50	2008	500
	2.25	2015	500
	2.625	2017	500
AUSTRALIAN $	6.00	2009	200
	5.75	2015	450
NEW ZEALAND $	4.75	2015	300
MEXICAN PESO	8.27	2016	1 500
HONG KONG $	4.30	2012	750

DIVERSIFICATION BY MARKET

- A regular presence on major markets, i.e. in Canada, the United States, Europe, Asia and Australia with:
  - large issues;
  - reopening of existing issues.
- Québec has been present on foreign financial markets since the late 19th century, more specifically since 1874, in London.

ENSURING LIQUIDITY

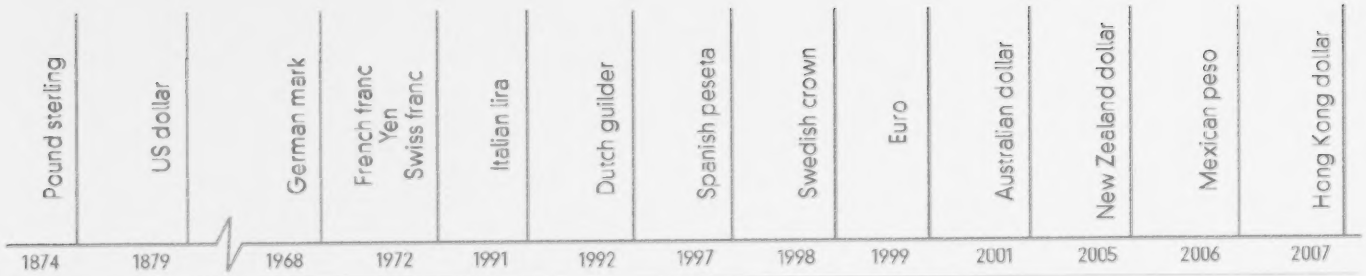
- Long-term relations with Québec's financial partners.
- Diversification of funding sources with issues in various currencies.
- Promotion of Québec securities:
  - promotion documents;
  - meetings with investors;
  - involvement of banks and brokerage firms in these activities.

STREAMLINED FINANCING ACTIVITIES IN SOME COUNTRIES

- Under the standards stemming from the Basel II Accord, foreign regulators can grant a risk weighting factor of 0% to Québec securities.

  This means that financial institutions do not have to maintain capital reserves against Québec securities that they hold.
- Today, Germany, Belgium, France, Italy, Luxembourg, the Netherlands and the United Kingdom attribute a 0% risk weighting factor to Québec securities. Québec's financing activities are therefore facilitated in these countries.

LONGSTANDING PRESENCE ON FOREIGN MARKETS
(DATE OF THE FIRST QUÉBEC BOND ISSUES)



Debt Management

DEBT

- The government's gross debt includes the direct debt, the net liability under the retirement plans and the net liability for employee future benefits. The gross debt is reduced by the amounts accumulated in the Generations Fund.
- Preliminary results indicate that the government's gross debt amounted to $144.9 billion as at March 31, 2008, i.e. 48.4% of GDP.

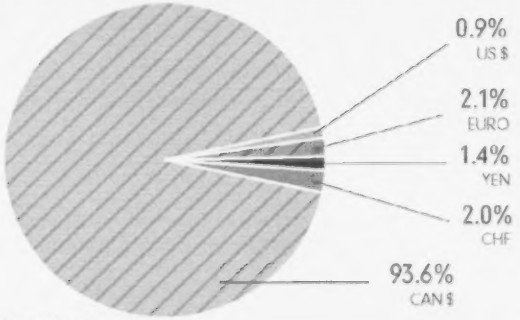
MINIMIZE COST AND RISK

- The government's debt management strategy seeks to minimize the cost of the debt portfolio while limiting the risk tied to fluctuations in exchange rates and interest rates.
  - Borrowings are made where funds are available, at the lowest possible cost.
  - Interest rate and currency swaps and futures contracts are used to achieve the desired debt proportions:
    - by currency;
    - at fixed and floating rates.
- Debt management allows the government to achieve substantial savings on debt service.

THE GOVERNMENT'S GROSS DEBT AS AT MARCH 31, 2008
(BILLIONS OF DOLLARS)

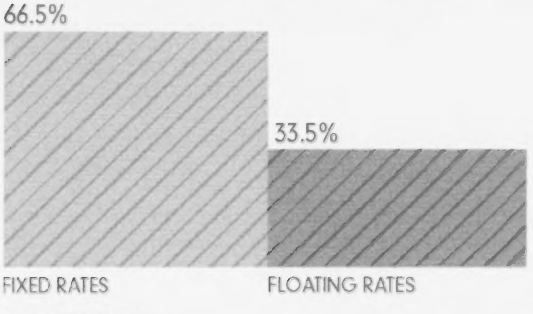
Direct debt	114.9
Net retirement plans liability	30.4
Net employee future benefits liability	0.7
Less: Amounts accumulated in the Generations Fund	1.1
Gross debt	144.9

QUÉBEC GOVERNMENT STRUCTURE OF THE GOVERNMENT'S GROSS DEBT BY CURRENCY AS AT MARCH 31, 2008[P]



P: Preliminary results.

QUÉBEC GOVERNMENT STRUCTURE OF THE GOVERNMENT'S GROSS DEBT BY INTEREST RATE AS AT MARCH 31, 2008[P]



P: Preliminary results.

Diversified Sources of Financing

QUÉBEC CONTINUES TO DIVERSIFY ITS SOURCES OF FINANCING

- Québec is constantly seeking to diversify its sources of financing. In January 2006, Québec issued bonds on the Mexican market. In 2007, it completed its first issue in Hong Kong dollars. That was the 15th foreign currency in which Québec has issued bonds.

AN ONGOING AND RECOGNIZED PRESENCE ON INTERNATIONAL MARKETS

- *Euroweek*, a financial magazine, has awarded prizes for Québec transactions in American dollars and in euros carried out in 2001, 2002, 2003 and 2005. Québec's issue in Swiss francs in 2005 earned a prize from the *International Financing Review*.

QUÉBEC CAPITALIZES ON FAVOURABLE CONDITIONS FOR LONG-TERM ISSUES IN CANADA

- On the Canadian market, Québec floated an issue in 2007-2008 with one of the longest maturities in Canada. Over the past year, the government made $500 million worth of borrowings that mature in December 2076.

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC - 2008 EDITION April 2008

Finances
Québec

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